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Moqhaka Local Municipality
Annual financial statements
for the year ended 30 June 2014

General Information

Jurisdiction Number	Municipal demarcation code FS201
Legal form of entity	South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998).
	Moqhaka Local Municipality is situated within the southern part of the Fezile Dabi District in the Free State province. The seat of local government is Kroonstad.
Nature of business and principal activities	Moqhaka is a local municipality performing functions as set out in the constitution (Act 105 of 1996)
Mayoral committee	
Executive Mayor	Mareka, J
Speaker	Nakedi, ACWD
Chief Whip	Koloi, MA
Members of the Mayoral Committee	Colbert, DPC
	Machobane, ML
	Magadlela, ZS
	Makau, TL
	Mkhwanazi, TM
	Mokodutlo, NP
	Mokoena, S
	Mokotla, ME
	Moletsane, ER
	Tau, DA
	Thipane, MP
Grading of local authority	The Moqhaka Municipality is a grade 4 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998.
Chief Finance Officer (CFO)	Marumo, T
Accounting Officer	Mqwathi, MS
Registered office	Municipal Offices Hill Street Kroonstad 9499
Business address	Municipal Offices Hill Street Kroonstad 9499
Postal address	PO Box 302 Kroonstad 9500
Bankers	ABSA Bank Limited
Auditors	Auditor General of South Africa

General Information

Attorneys	Du Randt & Louw Majavu Incorporated Neumann van Rooyen Attorneys Podbielski Mhlambi Attorneys
Preparer	The annual financial statements were internally compiled by: The Office of the CFO
Members of Council	Dalton, CM Dire, AMS Green, MM Hattingh, JM Kgang, LD Khiba, SV Leokaoke, TJ Letsabo, MJ Letsitsa, ME Lithupa, MJ Makoele, WL Maling, DM Masuret, A Mbono, MD Makhotheni, NW Moeketsi, DA Mofokeng, MJ Monoto, MA Notsi, EM Ntsala, TM Nzunga, DN Rooskrans, B Seleke, LM Selikoe, NM Sethabela, MJ Shahim, DM Silevu, JS Taje, FM Thajane, MI Tladi, SB Twapa, VPM Vermeulen, M Viljoen, AH Wille, GV

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The reports and statements set out below comprise the annual financial statements presented to the provincial legislature:

The following supplementary information does not form part of the annual financial statements and is unaudited:

Appendixes:

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Abbreviations

COID	Compensation for Occupational Injuries and Diseases
EPWP	Extended Public Works Programme
DBSA	Development Bank of South Africa
IDP	Integrated Development Plan
DWAS	Department of Water Affairs and Sanitation
MSIG	Municipal Systems Improvement Grant
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
SCM	Supply Chain Management
MMC	Member of Mayoral Committee
COGTA	Cooperative Governance and Traditional Affairs

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality’s business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality’s cash flow forecast for the year to 30 June 2015 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors.

The annual financial statements have been examined by the municipality's external auditors.

I certify that the salaries, allowances and benefits of councillors as disclosed in note 33 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provicial and Local Government's determination in accordance with this Act.

The annual financial statements set out on pages 6 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 29 August 2014 and were signed on its behalf by:

Mqwathi, MS
Accounting Officer
Hons: Business Administration

Kroonstad

29 August 2014

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2014.

1. Review of activities

Main business and operations

The municipality is engaged in moqhaka is a local municipality performing functions as set out in the constitution (act 105 of 1996) and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in our opinion require any further comment.

Net deficit of the municipality was R 134 799 699 (2013: deficit R 68 248 476).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act of 2013.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year.

4. Accounting Officer's interest in contracts

The accounting officer had no interest in contracts during the year.

5. Accounting policies

The annual financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122 (3) of the Municipal Financial Management Act, (Act No. 56 of 2003).

6. Non-current assets

No major changes have occured in the nature or use of the non-current assets of the municipality during the year.

7. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Name	Nationality
Mqwathi, MS	South African

Statement of Financial Position as at 30 June 2014

Figures in Rand	Notes	2014	2013 Restated*
Assets			
Current Assets			
Cash and cash equivalents	3	22 189 633	9 731 284
Receivables from exchange transaction	4	61 516 191	64 412 868
Inventories	5	5 211 412	4 872 068
Investments	6	62 652	-
Receivables from non-exchange transactions	7	13 094 898	13 829 257
VAT receivable	8	7 812 930	19 349 507
		109 887 716	**112 194 984**
Non-Current Assets			
Intangible assets	9	940 260	765 441
Heritage assets	10	885 650	885 650
Investment property	11	114 973 505	126 228 505
Property, plant and equipment	12	2 172 729 404	2 340 818 179
Investments	6	220 891	214 781
		2 289 749 710	**2 468 912 556**
Total Assets		**2 399 637 426**	**2 581 107 540**
Liabilities			
Current Liabilities			
Other financial liabilities	17	2 258 568	1 508 475
Finance lease obligation	16	83 975	313 960
Payables from exchange transactions	18	111 488 325	147 534 932
Consumer deposits	15	9 214 943	8 821 409
Unspent conditional grants and receipts	19	13 606 261	2 899 364
		136 652 072	**161 078 140**
Non-Current Liabilities			
Other financial liabilities	17	23 597 764	27 038 976
Finance lease obligation	16	17 125	66 030
Employee benefit obligation	14	48 224 000	48 224 000
Provisions	20	17 706 905	17 715 905
		89 545 794	**93 044 911**
Total Liabilities		**226 197 866**	**254 123 051**
Net Assets		**2 173 439 560**	**2 326 984 489**
Accumulated surplus		2 173 439 560	2 326 984 489

* See Note 48

Statement of Financial Performance

Figures in Rand	Notes	2014	2013 Restated*
Revenue			
Government grants & subsidies	22	248 349 145	228 899 884
Property rates	23	36 337 405	42 025 820
Service charges	24	323 226 599	300 635 369
Rental of facilities and equipment	25	4 112 344	4 190 682
Fees earned	26	781 668	848 038
Interest received - investment	27	7 402 642	5 785 853
Dividends received	27	12 234	8 109
Other income	28	8 063 414	12 296 162
Discount received	29	133 691	144
Fines	30	862 465	974 809
Public contributions and donations	31	9 800 000	-
Total revenue		**639 081 607**	**595 664 870**
Expenditure			
Personnel	32	161 289 622	154 058 086
Remuneration of councillors	33	16 284 853	14 837 152
Debt impairment	34	46 384 174	(48 109 163)
Depreciation and amortisation	35	251 223 672	250 020 590
Finance costs	36	5 040 464	10 417 192
Contracted services	38	11 620 005	10 038 497
Repairs and maintenance	39	39 887 074	32 776 697
Grants and subsidies paid	40	4 475 117	3 000 476
Bulk purchases	41	173 051 737	164 985 789
Loss on disposal of assets	42	34 181	880 348
General Expenses	43	64 596 517	67 502 415
Total expenditure		**773 887 416**	**660 408 079**
Operating surplus / (deficit)		**(134 805 809)**	**(64 743 209)**
Fair value adjustments	44	6 110	17 733
Actuarial gains / (losses) on employees benefit obligation		-	(3 523 000)
Surplus / (deficit) for the year		**(134 799 699)**	**(68 248 476)**

* See Note 48

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2012	**2 490 057 221**	**2 490 057 221**
Changes in net assets		
Adjustments against Accumulated Surplus	(94 824 256)	(94 824 256)
Net income recognised directly in net assets	(94 824 256)	(94 824 256)
Surplus for the year	(68 248 476)	(68 248 476)
Total recognised income and expenses for the year	(163 072 732)	(163 072 732)
Total changes	(163 072 732)	(163 072 732)
Restated* Balance at 01 July 2013	**2 326 984 489**	**2 326 984 489**
Changes in net assets		
Adjustments against accumulated surplus	(18 745 230)	(18 745 230)
Net income (losses) recognised directly in net assets	(18 745 230)	(18 745 230)
Surplus for the year	(134 799 699)	(134 799 699)
Total recognised income and expenses for the year	(153 544 929)	(153 544 929)
Total changes	(153 544 929)	(153 544 929)
Balance at 30 June 2014	**2 173 439 560**	**2 173 439 560**

* See Note 48

Cash Flow Statement

Figures in Rand	Notes	2014	2013 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		354 765 957	358 380 674
Grants		259 056 042	224 476 984
Interest income		7 402 642	5 785 853
Dividends received		12 234	8 109
Discount received		133 691	144
Other receipts		23 619 891	18 309 692
		644 990 457	606 961 456
Payments			
Employee costs		(177 574 475)	(162 731 238)
Suppliers		(318 095 292)	(299 762 939)
Finance costs		(5 040 464)	(10 417 192)
		(500 710 231)	(472 911 369)
Net cash flows from operating activities	45	**144 280 226**	**134 050 087**
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(84 411 706)	(74 656 874)
Proceeds from sale of property, plant and equipment	12	-	(1)
Purchase of other intangible assets	9	(368 300)	-
Increase / (decrease) of financial assets		(62 652)	39 324
Net cash flows from investing activities		**(84 848 768)**	**(74 617 551)**
Cash flows from financing activities			
Repayment of other financial liabilities		(2 691 119)	92 207
Finance lease payments		(299 031)	(3 601 963)
Other cash item		(43 982 959)	(61 938 462)
Net cash flows from financing activities		**(46 973 109)**	**(65 448 218)**
Net increase/(decrease) in cash and cash equivalents		**12 458 349**	**(6 015 682)**
Cash and cash equivalents at the beginning of the year		9 731 284	15 746 966
Cash and cash equivalents at the end of the year	3	**22 189 633**	**9 731 284**

* See Note 48

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
2014											
Financial Performance											
Property rates	40 102 385	(2 000 000)	38 102 385	-		38 102 385	36 337 405		(1 764 980)	95 %	91 %
Service charges	351 558 631	-	351 558 631	-		351 558 631	323 226 599		(28 332 032)	92 %	92 %
Investment revenue	5 500 000	-	5 500 000	-		5 500 000	7 414 876		1 914 876	135 %	135 %
Transfers recognised - operational	265 986 000	-	265 986 000	-		265 986 000	248 349 145		(17 636 855)	93 %	93 %
Other own revenue	14 407 460	(33 464)	14 373 996	-		14 373 996	13 959 692		(414 304)	97 %	97 %
Total revenue (excluding capital transfers and contributions)	**677 554 476**	**(2 033 464)**	**675 521 012**	**-**		**675 521 012**	**629 287 717**		**(46 233 295)**	**93 %**	**93 %**
Employee costs	(177 012 068)	997 450	(176 014 618)	-	-	(176 014 618)	(161 289 622)	-	14 724 996	92 %	91 %
Remuneration of councillors	(16 036 028)	(86 400)	(16 122 428)	-	-	(16 122 428)	(16 284 853)	-	(162 425)	101 %	102 %
Debt impairment	(41 000 000)	-	(41 000 000)			(41 000 000)	(46 384 174)	-	(5 384 174)	113 %	113 %
Depreciation and asset impairment	(28 893 150)	-	(28 893 150)			(28 893 150)	(251 223 672)	-	(222 330 522)	869 %	869 %
Finance charges	(6 022 606)	-	(6 022 606)	-	-	(6 022 606)	(5 040 464)	-	982 142	84 %	84 %
Bulk purchases	(176 880 000)	270 000	(176 610 000)	-	-	(176 610 000)	(173 051 737)	-	3 558 263	98 %	98 %
Grants and subsidies	(5 976 500)	-	(5 976 500)	-	-	(5 976 500)	(4 475 117)	-	1 501 383	75 %	75 %
Other expenditure	(225 734 124)	(20 953 796)	(246 687 920)	-	-	(246 687 920)	(116 137 777)	-	130 550 143	47 %	51 %
Total expenditure	**(677 554 476)**	**(19 772 746)**	**(697 327 222)**	**-**	**-**	**(697 327 222)**	**(773 887 416)**	**-**	**(76 560 194)**	**111 %**	**114 %**
Surplus/(Deficit)	**-**	**(21 806 210)**	**(21 806 210)**	**-**		**(21 806 210)**	**(144 599 699)**		**(122 793 489)**	**663 %**	**DIV/0 %**

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Contributions recognised - capital and contributed assets	-	-	-	-		-	9 800 000		9 800 000	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	**-**	**(21 806 210)**	**(21 806 210)**	**-**		**(21 806 210)**	**(134 799 699)**		**(112 993 489)**	**618 %**	**DIV/0 %**
Surplus/(Deficit) for the year	**-**	**(21 806 210)**	**(21 806 210)**	**-**		**(21 806 210)**	**(134 799 699)**		**(112 993 489)**	**618 %**	**DIV/0 %**

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality, and have been rounded off to the nearest Rand.

1.2 Significant judgements and sources of estimation uncertainty

In preparing the annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the annual financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the annual financial statements. Significant judgements include:

Trade receivables / Held to maturity investments and/or loans and receivables

The municipality assesses its trade receivables, held to maturity investments and loans and receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance in the year in which it arose.

Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [i.e. production estimates, supply demand], together with economic factors such as inflation interest.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for the property, plant and equipment as wel as intangible assets. The municipality re-assess the useful lives and the residual values on an annual basis, considering the conditional and use of the individual asset. This estimate is based on industry norm. Management will change the depreciation charge where useful lives are more / less than previously estimated.

Post retirement benefits

The present value of the post retirement obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the municipality considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 14.

Effective interest rate and deferred payment terms

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement terms that materially impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

1.3 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Accounting Policies

1.3 Investment property (continued)

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Derecognition

An investment property shall be derocognised (eliminated from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

1.4 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one reporting period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost or fair value of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

1.4 Property, plant and equipment (continued)

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or assets, or a combination of assets and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Land	Indefinite
Buildings	7 - 80 years
Plant and machinery	2 - 15 years
Furniture and fixtures	2 - 10 years
Motor vehicles	2 - 20 years
Office equipment	3 - 7 years
IT equipment	3 - 7 years
Infrastructure	
• Park infrastructure assets	7 - 80 years
Community	
• Land	Indefinite
• Buildings	7 - 80 years
Electricity	7 - 80 years
Park Infrastructure	7 - 80 years
Quarries	15 - 20 years
Landfill sites	10 - 15 years
Finance leases - 3G cards	3 years
Finance leases - Cellphones	2 years
Solid waste	15 - 80 years
Wastewater network	7 - 80 years
Portable water network	8 - 100 years
Storm water	40 - 60 years
Heritage	Indefinite
Roads, bridge and roadside structures	8 - 80 years
Railway	60 - 100 years

The residual value, the useful life and depreciation method of each asset are reviewed at year end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Accounting Policies

1.4 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Property, plant and equipment which the municipality holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. These assets are not accounted for as non-current assets held for sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

If the related asset is measured using the revaluation model:
- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality’s operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Accounting Policies

1.6 Heritage assets (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

Heritage assets are assets that have a cultural, environmental, historical, natural, scientific, technological or artistic significance and are held indefinitely for the benefit of present and future generations.

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset’s net selling price and its value in use.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset’s remaining service potential.

Recognition

The municipality recognises a heritage asset as an asset if it is probable that future economic benefits or service potential associated with the asset will flow to the municipality, and the cost or fair value of the asset can be measured reliably.

Initial measurement

Heritage assets are measured at cost.

Where a heritage asset is acquired through a non-exchange transaction, its cost is measured at its fair value as at the date of acquisition.

Subsequent measurement

After recognition as an asset, a class of heritage assets is carried at its cost less any accumulated impairment losses.

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset’s carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset’s carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

Impairment

The municipality assess at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

1.6 Heritage assets (continued)

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

1.7 Intangible assets

An asset is identifiable as an intangible asset when it:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software, financial system	20 years
Computer software, operating system	3 - 5 years

Accounting Policies

1.7 Intangible assets (continued)

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:
- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:
- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

1.8 Financial instruments (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:
- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
- on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
- non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
- financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.8 Financial instruments (continued)

Classification

The entity classifies financial assets and financial liability as reflected on the face of the statement of financial position into the following categories:

- Financial instruments measured at fair value
- Financial instruments measured at amortised cost
- Financial instruments measured at cost

Initial recognition

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:
- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

For financial assets and financial liabilities measured at amortised cost or cost, a gain or loss is recognised in surplus or deficit when the financial asset or financial liability is derecognised or impaired, or through the amortisation process.

Impairment and uncollectibility of financial assets

The entity assess at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

1.8 Financial instruments (continued)

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
    - derecognise the asset; and
    - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Accounting Policies

1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

1.9 Tax

Value Added Tax (VAT)

The municipality accounts for VAT on the cash basis. The municipality is liable to account for VAT at the standard rate (14%) in terms of section 7(1) (a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the .

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

1.11 Inventories

Inventories are initially measured at cost except where inventories are acquired through a non-exchange transaction, then their costs are their fair value as at the date of acquisition.

Subsequently inventories are measured at the lower of cost and net realisable value.

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

Net realisable value is the estimated selling price in the ordinary course of operations less the estimated costs of completion and the estimated costs necessary to make the sale, exchange or distribution.

Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

The cost of inventories comprises of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

The cost of inventories of items that are not ordinarily interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

When inventories are sold, the carrying amounts of those inventories are recognised as an expense in the period in which the related revenue is recognised. If there is no related revenue, the expenses are recognised when the goods are distributed, or related services are rendered. The amount of any write-down of inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1.12 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Accounting Policies

1.12 Impairment of cash-generating assets (continued)

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.13 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm’s length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset’s fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Accounting Policies

1.14 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Post retirement obligations

The entity provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. Independent qualified actuaries carry out valuations of these obligations. The benefits are charged to income as incurred throught the year.

Accounting Policies

1.15 Provisions and contingencies

Provisions are recognised when:
- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:
- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:
- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

Accounting Policies

1.15 Provisions and contingencies (continued)

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

1.16 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense, rather than as an adjustment of the amount of revenue originally recognised.

Measurement

Revenue is measured at the fair value of the consideration received or receivable.

Sale of goods

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

1.16 Revenue from exchange transactions (continued)

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

Interest and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Dividends or similar distributions are recognised, in surplus or deficit, when the municipality's right to receive payment has been established.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

Revenue from the rental of facilities and equipment is recognised on a straight-lined basis over the term of the lease agreement.

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when levieable in terms of law.

1.17 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Recognition

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

Measurement

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

Assessment Rates

Revenue from rates, including collection charges and penalty interest, shall be recogised when

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- there has been compliance with the relevant legal requirement.
- changes to property values during a reporting period, which are referred to as "interims", are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Fines

Revenue from the issuing of fines shall be recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity, and
- the amount of the revenue can be measured reliably
- there are two types of fines; spot fines and summones. Municipalities will usually issue both types of fines.There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these fines are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable
- In respect of summonses the public prosecutor can decide whether to waive the made for the revenue amount collected from spot finesand summonses based on past experience of amounts collected. Where reliable estimate cannot be made of revenue from summonses, the revenue from summonses should be recognised when the public prosecutor pays over to the entity the cash actually collected on summonses issued.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

Services in-kind are not recognised.

Services in-kind are recognised as revenue and as assets.

1.18 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

1.19 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

Budget information, in accordance with GRAP 1 and based on IPSAS 24, has been provided in Annexure E(1) to these financial statements.

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed in note 43.

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practical, and the prior period comparatives are restated accordingly. The nature and reason for the reclassification is disclosed in note 43.

Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practical, and the prior year comparatives are restated accordingly. The nature and reason for the reclassification is disclosed in note 12.

1.21 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Accounting Policies

1.21 Unauthorised expenditure (continued)

- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.22 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.23 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is also required with the exception of updating the note to the financial statements.

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.24 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

1.25 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

Accounting Policies

1.26 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Government grants can be in the form of grants to acquire or construct fixed assets (capital grants), grants for the furtherance of national and provincial government policy objectives and general grants to subsidise the cost incurred by entities in rendering services. Capital grants and general grants for the furtherance of government policy objectives are usually restricted revenue in that stipulations are imposed on their use.

Government grants are recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits of service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue should only be recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which-ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

Other Grants and Donations
Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

Other grants and donations shall be recognised as revenue when:
- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.27 Segmental information

Segmental information on property, plant and equipment, as well as income and expenditure, is set out in Appendices C and D, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The municipality operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the financial statements.

1.28 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Accounting Policies

1.28 Related parties (continued)

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

1.29 Contractual Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Contractual commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date..
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements
- Other commitments for contracts are be non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.Expenditure on research is recognised as an expense when it is incurred.

1.30 Subsequent Events

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

1.31 GRAP 24 Presentation of Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2013/07/01 to 2014/06/30.

The budget for the economic entity includes all the entities approved budgets under its control.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists.
All material differences are explained in the notes to the annual financial statements.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

Figures in Rand	2014	2013

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2014 or later periods:

GRAP 25: Employee benefits

The objective of GRAP25 is to prescribe the accounting and disclosure for employee benefits. The Standard requires an municipality to recognise:

- a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and
- an expense when an municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits.

GRAP25 must be applied by an employer in accounting for all employee benefits, except share based payment transactions.

GRAP25 defines, amongst others, the following:

- Employee benefits as all forms of consideration given by an municipality in exchange for service rendered by employees;
- Defined contribution plans as post-employment benefit plans under which an municipality pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods;
- Defined benefit plans as post-employment benefit plans other than defined contribution plans;
- Multi-employer plans as defined contribution plans (other than state plans and composite social security programmes) or defined benefit plans (other than state plans) that:
  - pool the assets contributed by various entities that are not under common control; and
  - use those assets to provide benefits to employees of more than one entity, on the basis that contribution and benefit levels are determined without regard to the identity of the municipality that employs the employees concerned;
- Other long-term employee benefits as employee benefits (other than post-employment benefits and termination benefits) that is not due to be settled within twelve months after the end of the period in which the employees render the related service;
- Post-employment benefits as employee benefits (other than termination benefits) which are payable after the completion of employment;
- Post-employment benefit plans as formal or informal arrangements under which an municipality provides post-employment benefits for one or more employees;
- Short-term employee benefits as employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service;
- State plans as plans other than composite social security programmes established by legislation which operate as if they are multi-employer plans for all entities in economic categories laid down in legislation;
- Termination benefits as employee benefits payable as a result of either:
  - an entity's decision to terminate an employee's employment before the normal retirement date; or
  - an employee's decision to accept voluntary redundancy in exchange for those benefits;
- Vested employee benefits as employee benefits that are not conditional on future employment.

The standard states the recognition, measurement and disclosure requirements of:

- Short-term employee benefits;
  - All short-term employee benefits;
  - Short-term compensated absences;
  - Bonus, incentive and performance related payments;
- Post-employment benefits: Defined contribution plans;
- Other long-term employee benefits;
- Termination benefits.

The standard states Post-employment benefits: Distinction between defined contribution plans and defined benefit plans:

- Multi-employer plans;
- Defined benefit plans where the participating entities are under common control;
- State plans;
- Composite social security programmes;

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)
- Insured benefits.

The standard states, for Post-employment benefits: Defined benefit plans, the following requirements:
- Recognition and measurement;
- Presentation;
- Disclosure;
- Accounting for the constructive obligation;
- Statement of financial position;
- Asset recognition ceiling;
- Asset recognition ceiling: When a minimum funding requirement may give rise to a liability;
- Statement of financial performance.

The standard prescribes recognition and measurement for:
- Present value of defined benefit obligations and current service cost:
  - Actuarial valuation method;
  - Attributing benefits to periods of service;
  - Actuarial assumptions;
  - Actuarial assumptions: Discount rate;
  - Actuarial assumptions: Salaries, benefits and medical costs;
  - Actuarial gains and losses;
  - Past service cost.
- Plan assets:
  - Fair value of plan assets;
  - Reimbursements;
  - Return on plan assets.

The standard also deals with Entity combinations and Curtailments and settlements.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

The effective date of the standard is for years beginning on or after 01 April 2013.

The municipality has adopted the standard for the first time in the 2014 annual financial statements.

The impact of the standard is not material.

GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:
- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users’ assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

2. New standards and interpretations (continued)

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2014.

The municipality expects to adopt the standard for the first time in the 2015 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

GRAP 1 (as revised 2012): Presentation of Financial Statements

Paragraphs .108 and .109 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Statement of Financial Performance as well as the Statement of Changes in Net Assets.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 3 (as revised 2012): Accounting Policies, Change in Accounting Estimates and Errors

Paragraphs .17 and .18 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Changes in Accounting Policies.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The effective date of the amendment is for years beginning on or after 01 April 2013

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 9 (as revised 2012): Revenue from Exchange Transactions

Paragraphs .11 and .13 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to the Scope and Definitions.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 12 (as revised 2012): Inventories

Paragraph .30 was amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 13 (as revised 2012): Leases

Paragraphs .38 and .42 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Disclosures.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 16 (as revised 2012): Investment Property

Paragraphs .12, .15, .34, .76, .84 and .87 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Definitions, Measurement at recognition, Disposals and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

The impact of the amendment is not material.

GRAP 17 (as revised 2012): Property, Plant and Equipment

Paragraphs .44, .45, .72, .75, .79 and .85 were amended by the improvements to the Standards of GRAP issued previously:

Amendments were made to Measurement after recognition, Derecognition and Disclosure.

All amendments to be applied prospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

The impact of the amendment is not material.

GRAP 31 (as revised 2012): Intangible Assets (Replaces GRAP 102)

Numerous paragraphs were amended by the improvements to the Standards of GRAP issued previously:

Changes made comprise 3 areas that can be summarised as follows:
- Consequential amendments arising from the alignment of the accounting treatment and text of GRAP 102 with that in IPSAS 31,
- The deletion of guidance and examples from Interpretations issues by the IASB previously included in GRAP102,
- Changes to ensure consistency between the Standards, or to clarify existing principles.

All amendments to be applied retrospectively.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP16: Intangible assets website costs

An entity may incur internal expenditure on the development and operation of its own website for internal or external access. A website designed for external access may be used for various purposes such as to disseminate information, for example annul reports and budgets, create awareness of services, request comment on draft legislation, promote and advertise an entity's own services and products, for example the E-filing facility of SARS that enables taxpayers to complete their annual tax assessments, provide electronic services and list approved supplier details. A website designed for internal access may be used to store an entity's information, for example policies and operating procedures, and details of users of a service, and other relevant information.

The stages of a website's development can be described as follows:
- Planning – includes undertaking feasibility studies, defining objectives and specifications, evaluating alternatives and selecting preferences.
- Application and infrastructure development – includes obtaining a domain name, purchasing and developing hardware and operating software, installing developed applications and stress testing.
- Graphical design development – includes designing the appearance of web pages.
- Content development – includes creating, purchasing, preparing and uploading information, either text or graphic, on the website before the completion of the website's development. This information may either be stored in separate databases that are integrated into (or accessed from) the website or coded directly into the web pages.

Once development of a website has been completed, the operating stage begins. During this stage, an entity maintains and enhances the applications, infrastructure, graphical design and content of the website.

When accounting for internal expenditure on the development and operation of an entity's own website for internal or external access, the issues are:

2. New standards and interpretations (continued)

- whether the website is an internally generated intangible asset that is subject to the requirements of the Standard of GRAP on Intangible Assets; and
- the appropriate accounting treatment of such expenditure.

This Interpretation of Standards of GRAP does not apply to expenditure on purchasing, developing, and operating hardware (eg web servers, staging servers, production servers and internet connections) of a website. Such expenditure is accounted for under the Standard of GRAP on Property, Plant and Equipment. Additionally, when an entity incurs expenditure on an internet service provider hosting the entity's website, the expenditure is recognised as an expense under the paragraph .93 in the Standard of GRAP on Presentation of Financial Statements and the Framework for the Preparation and Presentation of Financial Statements when the services are received.

The Standard of GRAP on Intangible Assets does not apply to intangible assets held by an entity for sale in the ordinary course of operations (see the Standards of GRAP on Construction Contracts and Inventories) or leases that fall within the scope of the Standard of GRAP on Leases. Accordingly, this Interpretation of Standards of GRAP does not apply to expenditure on the development or operation of a website (or website software) for sale to another entity. When a website is leased under an operating lease, the lessor applies this Interpretation of Standards of GRAP. When a website is leased under a finance lease, the lessee applies this Interpretation of Standards of GRAP after initial recognition of the leased asset.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

IGRAP1 (as revised 2012):Applying the probability test on initial recognition of revenue

Paragraphs .03, .04, .05, .06, .08 and .10, were amended and paragraph .02 was added in the Interpretation of the Standards of GRAP.

This Interpretation of the Standards of GRAP now addresses the manner in which an entity applies the probability test on initial recognition of both:

(a) exchange revenue in accordance with the Standard of GRAP on Revenue from Exchange Transactions and

(b) non-exchange revenue in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

This Interpretation of the Standards of GRAP supersedes the Interpretation of the Standards of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue issued in 2009.

The effective date of the amendment is for years beginning on or after 01 April 2013.

The municipality has adopted the amendment for the first time in the 2014 annual financial statements.

It is unlikely that the amendment will have a material impact on the municipality's annual financial statements.

GRAP32: Service Concession Arrangements: Grantor

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

GRAP108: Statutory Receivables

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

3. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	15 920	11 920
Bank balances	6 304 450	1 558 414
Short-term deposits	15 869 263	8 160 950
	22 189 633	**9 731 284**

The fair value of the cash and cash equivalents approximate their carrying value.

Cash and cash equivalents pledged as collateral

Local guarantees issued to Department of Mining and Energy This cession is linked to ABSA fixed deposit account number: 205 824 7882	62 652	59 912
Local guarantees issued to Department of Mining and Energy - top up! This cession is linked to ABSA notice deposit account number: 630 1219190 FNB guarantee	39 696	7 800
	102 348	**67 712**

The municipality had the following bank accounts

Account number / description	**Bank statement balances**			**Cash book balances**		
	30 June 2014	**30 June 2013**	**30 June 2012**	**30 June 2014**	**30 June 2013**	**30 June 2012**
ABSA BANK - Cheque Account Number: 40 532 748 76	6 676 739	1 008 726	6 596 859	6 304 450	1 376 377	6 596 859
FNB BANK - Cheque Account Number: 62 028 349 349	-	-	(92)	-	-	(92)
ABSA BANK - Fixed Deposit Account Number: 2048435948	51 397	48 861	46 239	51 397	48 861	46 239
ABSA BANK - Fixed Deposit Account Number: 2045714533	-	16 001	16 001	-	16 001	16 001
ABSA BANK -Fixed Deposit Account Number: 2058247882	62 652	59 912	57 057	62 652	59 912	57 057
ABSA BANK - Notice Deposit Account Number: 63001219190	39 696	39 380	39 023	39 696	39 380	39 023
ABSA BANK - Saving Account Number: 9131901443	15 653 770	7 876 722	8 969 226	15 653 770	7 876 722	8 969 226
ABSA BANK - Savings Account Number: 9144149383	2 839	3 608	3 601	2 839	3 608	3 601
ABSA BANK - Savings Account Number: 9182653631	2 525	2 486	2 483	2 525	2 486	2 483
ABSA BANK - Saving Account Number: 9232476515	93 049	91 578	90 216	93 049	91 578	90 216
Total	**22 582 667**	**9 147 274**	**15 820 613**	**22 210 378**	**9 514 925**	**15 820 613**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

4. Receivables from exchange transactions

Gross balances		
Electricity	51 873 523	29 462 219
Water	113 420 028	104 482 426
Interest on debtors	35 509 525	32 975 926
Sewerage	29 442 383	25 455 185
Refuse	20 486 956	19 316 226
Other services*	14 745 010	18 305 234
Deposit	1 207 437	1 198 488
	266 684 862	**231 195 704**

*Other Service comprise of: Rental (including leases), Fire services and advertising services.

Less: Impairment		
Electricity	(8 554 422)	(4 844 752)
Water	(108 265 398)	(91 165 467)
Interest on debtors	(29 988 186)	(24 258 860)
Sewerage	(25 820 501)	(20 680 091)
Refuse	(18 034 991)	(15 783 207)
Other services*	(13 457 566)	(8 963 068)
Housing rental	(1 047 607)	(1 087 391)
	(205 168 671)	**(166 782 836)**

Net carrying amount		
Electricity	43 319 101	24 617 467
Water	5 154 630	13 316 959
Interest on debtors	5 521 339	8 717 066
Sewerage	3 621 882	4 775 094
Refuse	2 451 965	3 533 019
Other services	1 287 444	9 342 166
Deposit	159 830	111 097
	61 516 191	**64 412 868**

Electricity		
Current (0 -30 days)	9 131 738	12 371 755
31 - 60 days	726 195	718 496
61 - 90 days	3 579 500	310 300
91 - 120 days	29 881 668	11 216 916
	43 319 101	**24 617 467**

Water		
Current (0 -30 days)	1 320 500	3 322 821
31 - 60 days	879 500	497 720
61 - 90 days	2 954 630	404 395
91 - 120 days	-	9 092 023
	5 154 630	**13 316 959**

Interest on debtors		
Current (0 -30 days)	528 258	117 902
31 - 60 days	489 897	107 145
61 - 90 days	499 328	104 817
91 - 120 days	4 003 856	8 387 202
	5 521 339	**8 717 066**

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

Sewerage		
Current (0 -30 days)	373 500	273 723
31 - 60 days	235 000	130 000
61 - 90 days	136 346	110 599
91 - 120 days	2 877 036	4 260 772
	3 621 882	**4 775 094**
Refuse		
Current (0 -30 days)	987 997	147 771
31 - 60 days	563 836	64 783
61 - 90 days	530 834	55 243
91 - 120 days	369 298	3 265 222
	2 451 965	**3 533 019**
Sundry services		
Current (0 -30 days)	135 200	155 529
31 - 60 days	180 500	39 238
61 - 90 days	605 193	43 607
91 - 120 days	366 551	9 103 792
	1 287 444	**9 342 166**
Deposit		
Current (0 -30 days)	50 212	6 794
31 - 60 days	3 016	989
61 - 90 days	2 466	2 012
91 - 120 days	104 136	101 302
	159 830	**111 097**

Summary of debtors by customer classification

Residential		
Current (0 -30 days)	8 132 551	12 610 850
31 - 60 days	4 676 706	5 984 496
61 - 90 days	4 671 279	4 981 132
90 + days	163 601 845	187 933 132
	181 082 381	211 509 610
Less: Allowance for impairment	(215 976 262)	(162 052 729)
	(34 893 881)	**49 456 881**
Industrial / commercial		
Current (0 -30 days)	7 713 394	8 526 230
31 - 60 days	710 535	1 400 819
61 - 90 days	341 696	780 537
90 + days	9 119 582	20 089 460
	17 885 207	30 797 046
Less: Allowance for impairment	(4 001 808)	(4 713 054)
	13 883 399	**26 083 992**
National and provincial government		
Current (0 -30 days)	3 718 367	4 264 350
31 - 60 days	364 103	211 724
61 - 90 days	132 522	135 080
90 + days	1 623 787	1 089 954
Less: Impairment	-	-

Figures in Rand	2014	2013

4. Receivables from exchange transactions (continued)

	5 838 779	**5 701 108**

Total		
Current (0 -30 days)	19 564 312	25 401 430
31 - 60 days	5 751 344	7 592 483
61 - 90 days	514 497	5 896 749
90 + days	240 854 709	192 305 042
	266 684 862	231 195 704
Less: Allowance for impairment	(205 168 671)	(166 782 836)
	61 516 191	**64 412 868**

Reconciliation of impairment		
Balance at beginning of the year	(166 782 836)	(204 905 137)
Contributions to allowance	(17 842 102)	55 225 382
VAT amount included in provision	(20 543 733)	(17 103 081)
	(205 168 671)	**(166 782 836)**

Receivables with arrangements

Included in the above receivables from exchange transactions, is a number of consumers with whom arrangements have been made to pay the debt over a longer period. The information from the municipality system was not readily available to calculate the precise figures for the total amount outstanding and also to calculate the timing of the repayments from the consumers, the estimated receivables with arrangements, after impairment, is R 2.1 million (2013: R 2 million).

5. Inventories

Consumable stores	4 990 274	4 689 117
Water	221 138	182 951
	5 211 412	**4 872 068**

None of the inventories held by the municipality were measured at fair value less cost to sell.

Inventory recognised as an expense amounted to R in the current year (2013: R 9,513,725).

Inventory held by the municipality were adjusted by R 235,258 in the current year (2013: adjusted by R 28,357).

No Inventories have been pledged as collateral for liabilities of the municipality.

6. Investments

Residual interest at cost		
Senwes	220 891	214 781
At amortised cost		
ABSA Fixed deposit	62 652	-
Total other financial assets	**283 543**	**214 781**
Non-current assets		
Unlisted shares	220 891	214 781
Current assets		
Short term deposits	62 652	-

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

7. Receivables from non-exchange transactions

Assessment Rates	11 738 775	13 289 708
Sundry receivables	1 356 123	539 549
	13 094 898	**13 829 257**

Sundry receivables (consists of):

- ESKOM Deposits
- Fuel Deposit (Dakota Motors)

The fair value other receivables approximate their carrying values.

8. VAT receivable

VAT	7 812 930	19 349 507

The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only paid once cash is received or actual payments are made.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

9. Intangible assets

	2014			2013		
	Cost / Valuation	**Accumulated amortisation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated amortisation and accumulated impairment**	**Carrying value**
Computer software	4 296 117	(3 355 857)	940 260	3 927 817	(3 162 376)	765 441

Reconciliation of intangible assets - 2014

	Opening balance	Additions	Amortisation	Total
Computer software	765 441	368 300	(193 481)	940 260

Reconciliation of intangible assets - 2013

	Opening balance	Additions	Amortisation	Total
Computer software	1 103 582	-	(338 141)	765 441

Other information

There were no intangible assets that were assessed as having an indefinite useful live.

There are no intangible assets who's title is restricted or pledge as security for municipality's liabilities.

There are no contractual commitments for the acquisition of intangible assets.

10. Heritage assets

	2014			2013		
	Cost / Valuation	**Accumulated impairment losses**	**Carrying value**	**Cost / Valuation**	**Accumulated impairment losses**	**Carrying value**
Heritage assets	885 650	-	885 650	885 650	-	885 650

Reconciliation of heritage assets 2014

	Opening balance	Total
Historical buildings	885 650	885 650

Reconciliation of heritage assets 2013

	Opening balance	Total
Historical buildings	885 650	885 650

Transitional provisions

Due to initial adoption of GRAP 103

The date at which full compliance with GRAP 103 is expected, is 30 June 2015.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

10. Heritage assets (continued)

Deemed costs

	2014	2013
Aggregate of items valued using deemed cost	868 106	868 106

Deemed cost was determined using depreciated replacement cost.

11. Investment property

	2014			2013		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	114 973 505	-	114 973 505	126 228 505	-	126 228 505

Reconciliation of investment property - 2014

	Opening balance	Additions	Disposals	Total
Investment property	126 228 505	42 745 000	(54 000 000)	114 973 505

Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	126 228 505	126 228 505

Pledged as security

There are currently no restrictions on Investment Property as a result of them being pledged as securities for liabilities.

There are no restrictions on the reliability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligation on Investment Property.

A register containing the information required by section 63 of the MFMA is available for inspection at the registered office of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

12. Property, plant and equipment

	2014			2013		
	Cost / Valuation	**Accumulated depreciation and accumulated impairment**	**Carrying value**	**Cost / Valuation**	**Accumulated depreciation and accumulated impairment**	**Carrying value**
Land	8 493 631	-	8 493 631	8 493 631	-	8 493 631
Buildings	22 704 650	(9 745 248)	12 959 402	21 198 781	(8 334 904)	12 863 877
Plant and machinery	4 207 979	(2 700 122)	1 507 857	3 954 315	(2 306 200)	1 648 115
Furniture and fixtures	3 364 414	(2 339 277)	1 025 137	3 248 165	(2 121 124)	1 127 041
Motor vehicles	41 793 175	(29 762 637)	12 030 538	41 827 312	(26 634 881)	15 192 431
Office equipment	14 779 035	(13 988 805)	790 230	14 689 392	(13 737 886)	951 506
IT equipment	5 625 743	(3 830 550)	1 795 193	5 198 211	(3 262 463)	1 935 748
Infrastructure	3 694 258 871	(1 680 574 504)	2 013 684 367	3 630 335 108	(1 434 306 489)	2 196 028 619
Community	94 928 726	(57 377 917)	37 550 809	86 147 400	(58 788 260)	27 359 140
Capital work in progress	82 892 240	-	82 892 240	75 218 071	-	75 218 071
Total	**3 973 048 464**	**(1 800 319 060)**	**2 172 729 404**	**3 890 310 386**	**(1 549 492 207)**	**2 340 818 179**

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2014

	Opening balance	Additions	Disposals	Transfers	Adjustment	Depreciation	Total
Land	8 493 631	-	-	-	-	-	8 493 631
Buildings	12 863 877	95 525	-	-	-	-	12 959 402
Plant and machinery	1 648 115	255 444	-	-	-	(395 702)	1 507 857
Furniture and fixtures	1 127 041	117 549	-	-	-	(219 453)	1 025 137
Motor vehicles	15 192 431	180 989	(21 513)	-	-	(3 321 369)	12 030 538
Office equipment	951 506	89 643	-	-	-	(250 919)	790 230
IT equipment	1 935 748	446 845	(12 670)	-	-	(574 730)	1 795 193
Infrastructure	2 196 028 619	31 303 441	-	32 620 323	-	(246 268 016)	2 013 684 367
Community	27 359 140	1 524 195	-	8 667 474	-	-	37 550 809
Capital work in progress	75 218 071	50 398 075	-	(41 287 797)	(1 436 109)	-	82 892 240
	2 340 818 179	**84 411 706**	**(34 183)**	**-**	**(1 436 109)**	**(251 030 189)**	**2 172 729 404**

Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Disposals	Transfers	Change in estimates	Depreciation	Total
Land	8 493 631	-	-	-	-	-	8 493 631
Buildings	7 758 610	5 354 728	-	-	-	(249 461)	12 863 877
Plant and machinery	2 540 620	122 709	(86 622)	-	(486 754)	(441 838)	1 648 115
Furniture and fixtures	2 278 839	47 214	(48 133)	-	(919 122)	(231 757)	1 127 041
Motor vehicles	29 601 435	300 618	(672 763)	-	(10 286 380)	(3 750 479)	15 192 431
Office equipment	6 139 934	46 057	(27 099)	-	(3 447 393)	(1 759 993)	951 506
IT equipment	2 903 300	141 704	(45 730)	-	(444 421)	(619 105)	1 935 748
Infrastructure	2 368 705 416	68 293 220	-	-	-	(240 970 017)	2 196 028 619
Community	28 668 320	350 624	-	-	-	(1 659 804)	27 359 140
Capital work in progress	79 121 139	-	-	(3 903 068)	-	-	75 218 071
	2 536 211 244	**74 656 874**	**(880 347)**	**(3 903 068)**	**(15 584 070)**	**(249 682 454)**	**2 340 818 179**

Figures in Rand	2014	2013

12. Property, plant and equipment (continued)

Pledged as security

There are currently no restrictions on property, plant and equipment as a result of them being pledged a securities for liabilities.

Other information

	2014	2013
The entity currently has the following capital commitments with regards to capital expenditure on infrastructure assets		
Approved and contracted for	19 046 538	21 342 006
The following amounts have been included in Other Income which relates to damaged, lost or given up property, plant and equipment.		
Proceeds received from Insurers	353 418	2 317 925
The following amounts relates to leased assets held by the entity included in property, plant and equipment		
Net carrying value of leased assets:	-	-
Motor vehicles	4 225 093	4 669 321
Office Equipment	35 628	-
	4 260 721	**4 669 321**
Lease liability (refer to note 17)		
Motor vehicle	(66 831)	(372 496)
Office equipment	(34 268)	(7 494)
	(101 099)	**(379 990)**
Property, Plant and Equipment fully depreciated and still in use (Gross Carrying)		
Office equipment	12 969 568	12 969 568
Plant and machinery	1 616 282	1 618 062
Motor vehicles	16 264 867	990 930
Furniture and fixtures	1 554 324	1 555 624
IT equipment	1 979 075	1 979 075
	34 384 116	**19 113 259**

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

Capital work in progress refers to infrastructure projects which are still in the process of being completed.

13. Financial instruments disclosure

The accounting policies for financial instruments have been applied to the line items below:

2014

Financial assets

	At amortised cost	At cost	Total
Cash and cash equivalents	-	22 225 056	22 225 056
Short-term deposit	-	15 834 276	15 834 276
Receivables from exchange transactions	58 189 236	-	58 189 236
Investments	-	283 543	283 543
Other receivables from non-exchange transactions	15 254 842	-	15 254 842
Vat receivables	7 812 930	-	7 812 930
	81 257 008	**38 342 875**	**119 599 883**

Financial liabilities

	At amortised cost	Total
Consumer deposits	9 214 943	9 214 943
Finance lease obligation	101 100	101 100
Long-term loans	25 856 332	25 856 332
Provisions	17 706 904	17 706 904
Payables from exchange transactions	111 488 326	111 488 326
Unspent conditional grants and receipts	13 606 261	13 606 261
	177 973 866	**177 973 866**

2013

Financial assets

	At amortised cost	At cost	Total
Cash and cash equivalents	-	1 570 334	1 570 334
Short-term deposit	-	8 020 854	8 020 854
Receivables from exchange transactions	64 412 807	-	64 412 807
Investments	-	339 555	339 555
Other receivables from non-exchange transactions	13 834 561	-	13 834 561
Vat receivable	20 088 863	-	20 088 863
	98 336 231	**9 930 743**	**108 266 974**

Financial liabilities

	At amortised cost	Total
Consumer deposits	8 821 409	8 821 409
Finance lease obligation	708 776	708 776
Long-term loans	28 547 451	28 547 451
Provisions	15 907 971	15 907 971
Payables from exchange transactions	147 201 779	147 201 779
Unspent conditional grants and receipts	2 899 364	2 899 364
	204 086 750	**204 086 750**

14. Employee benefit obligations

Defined benefit plan

The defined benefit plan, consists of the Free State Municipal Pension Fund and Councillors pension fun governed by the Pension Fund Act of 1956.

The actuarial valuation determined that the retirement plan was in a sound financial position.

Post retirement medical aid plan

The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme
- Bonitas Medical Scheme;
- Hosmed Medical Scheme
- Samwumed Medical Scheme; and
- Key Health Medical Scheme

The amounts recognised in the statement of financial position are as follows:

	2014	2013
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(48 224 000)	(42 060 000)
Present value of the defined benefit obligation-partly or wholly funded	-	(565 000)
Fair value of plan assets	-	(3 488 000)
Fair value of reimbursement rights	-	(4 636 000)
Benefit payments	-	2 525 000
	(48 224 000)	**(48 224 000)**

	2014	2013
The Post Retirement Medical Plan is a defined benefit plan, of which the members are made up as follows:		
In-service members (employees)	-	26
Continuation members (e.g: Widows, orphans, pensioners)	-	90
	-	**116**

Net expense recognised in the statement of financial performance

	2014	2013
Current service cost	-	(565 000)
Interest cost	-	(3 488 000)
Actuarial (gains) losses	-	(4 636 000)
Cash movements	-	-
Benefit payments	-	2 525 000
Employer contributions	-	-
	-	**(6 164 000)**

Figures in Rand	2014	2013

14. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rate used	- %	8,20 %
Health care cost inflation	- %	7,90 %
Net discount rate	- %	0,28 %

The basis used to determine the overall expected rate of return on assets is as follow:

In line with IAS 19 and current market practice, government bond yields are used as the South African corporate bond market is not considered to be sufficiently developed. Furthermore, it is PwC's view that South Africa does not have a deep and liquid market in corporate bonds, and therefore government bonds are used when setting our best-estimate discount rate assumption.

The currency and term of the government bonds shall be consistent with the currency and estimated term of the post employment benefit obligations.

The estimated discount rate was set equal to the yield on the BEASSA zero-coupon yield curve with a term of 10.8 years, the expected duration of the liability based on the current membership data, as at 30 June 2014.

The expected benefit payments over the next annual reporting period is reflected in the table below.

Balance at 30 June 2014	-	(48 224 000)
Income statement	-	-
Current service cost	-	(430 000)
	-	(3 848 000)
Cash movement	-	-
Expected benefit payments	-	3 023 000
Expected as at 30 June 2015	**-**	**(49 479 000)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

14. Employee benefit obligations (continued)

Retirement Benefit Information

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below.

Defined contribution plans

The following are defined contribution plans:
- Free State Municipal Provident Fund
- Maokeng Provident Fund; and
- SAMWU National Provident Fund.

Defined benefit plans

The following are defined benefit plans:
- Government Employees Pension Fund;
- SALA Pension Fund; and
- Free State Municipal Pension Fund.

These are not treated as a defined benefit plan as defined by IAS 19, but as a defined contribution plan. These funds are multi employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan. This is in line with the exemption in IAS 19, paragraph 30, which states that where information required for a defined benefit plan is not available in respect of multi employer and state plans, these should be accounted for as defined contribution plans.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund is R 7 418 million (2009:R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million).

The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund was on 30 June 2005. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund is R1 308 million which is adequately financed by assets of R 1 531 million.

15. Consumer deposits

Kroonstad	9 214 943	8 821 409

Consumer deposits are raised when a service account is opened and is refunded to the consumer after the account is closed.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

16. Finance lease obligation

Total finance lease obligation minimum lease payments due		
- within one year	100 086	333 858
- in second to fifth year inclusive	17 125	66 831
	117 211	400 689
less: future finance charges	(16 111)	(20 699)
Present value of minimum lease payments	**101 100**	**379 990**

Non-current liabilities	17 125	66 030
Current liabilities	83 975	313 960
	101 100	**379 990**

It is municipality policy to lease certain motor vehicles and equipment under finance leases. The average lease term does not exceed 5 years. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer note 12.

Finance lease obligation - motor vehicles Minimum lease payments due		
- within one year	82 451	326 166
- in second to fifth year inclusive	-	66 831
Subtotal	82 451	392 997
Less: Future finance charges	(15 620)	(20 451)
Present value of minimum lease payments	**66 831**	**372 546**

Interest rates for leased motor vehicles are linked to prime at the contract date. No arrangements have been made to enter into contingent rent.

Finance lease obligation - equipment Minimum lease payments due		
- within one year	17 635	7 742
- in second to fifth year inclusive	17 125	-
Subtotal	34 760	7 742
Less: Future finace charges	(491)	(248)
Present value of minimum lease payments	**34 269**	**7 494**

Interest rates for leased equipment are fixed at the contract date. Lease payments escalate between 10% - 15% per annum and no arrangements have been entered into for contingent rent.

17. Other financial liabilities

At amortised cost		
Annuity loans - Development Bank of South Africa	25 856 332	28 547 451
Non-current liabilities		
At amortised cost	23 597 764	27 038 976
Current liabilities		
At amortised cost	2 258 568	1 508 475

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

18. Payables from exchange transactions

Other payables	84 169 790	122 638 643
Payments received in advanced	8 162 755	6 844 857
Annual bonus accrual	3 816 158	3 907 489
Leave pay accrual	11 210 887	10 305 665
Deposits received	2 645	394
Retention creditors	4 126 090	3 837 884
	111 488 325	**147 534 932**

Suppliers have not been paid within the prescribed 30 day period due to cashflow constraints.

19. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Municipal Infrastructure Grant (MIG)	-	-
LGSETA Grant	909 056	1 122 603
Integrated National Electrification Programme (INEG)	11 477 180	521 477
Extended Public Works Programme (EPWP)	78 162	107 662
Department of water affairs (DWA)	(20 018)	-
Financial Management grant (FMG)	4 170	-
Municipal System Improvement Grant (MSIG)	10 089	-
Department of local government (DPLG)	1 147 622	1 147 622
	13 606 261	**2 899 364**

Movement during the year

Balance at the beginning of the year	2 899 364	7 322 263
Additions during the year	259 056 042	61 232 984
Income recognition during the year	(248 349 145)	(65 655 883)
	13 606 261	**2 899 364**

The nature and extent of government grants recognised in the annual financial statements are an indication of other forms of government assistance from which the municipality has directly benefited.

Unfulfilled conditions and other contingencies attaching to government assistance is recognised as a liability until such time that the conditions are met. Once the conditions are met it is recognised as revenue.

See note 22 for reconciliation of grants from other spheres of government. The amounts are recognised as revenue when the qualifying expenditure is incurred.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

20. Provisions

Reconciliation of provisions - 2014

	Opening Balance	Utilised during the year	Total
Provision for the rehabilitation cost of landfill sites	3 232 798	-	3 232 798
Provision for the rehabilitation cost of quarries	1 608 107	-	1 608 107
Funeral assistance	141 000	(9 000)	132 000
Long service bonus	12 734 000	-	12 734 000
	17 715 905	**(9 000)**	**17 706 905**

Reconciliation of provisions - 2013

	Opening Balance	Contribution	Utilised during the year	Interest cost	Total
Provision for the rehabilitation cost of landfill sites	3 361 506	151 035	-	(279 743)	3 232 798
Provision for the rehabilitation cost of quarries	1 607 318	110 439	-	(109 650)	1 608 107
Funeral assistance	151 000	-	(10 000)	-	141 000
Long service bonus provision	11 107 000	847 000	-	780 000	12 734 000
	16 226 824	**1 108 474**	**(10 000)**	**390 607**	**17 715 905**

20. Provisions (continued)

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites and quarries at Kroonstad, Viljoenskroon and Steynsrus. Provision has been made for this cost based on actual cost calculations received.

No significant judgments were made because actual quotations were obtained at the specified dates to determine these costs.

Funeral Death Benefit
The funeral death benefit scheme was initiated by the Municipality for its employees who were appointed prior to 1996. The scheme is only open to municipal employees, and payout's are only made to employees who die in the service of the Municipality.

Kroonstad landfill site
The landfill site at Kroonstad needs to be rehabilitated after 3 years (2017). Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

Viljoenskroon landfill site
The landfill site at Viljoenskroon needs to be rehabilitated after 0 year. Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

Steynsrus landfill site
The landfill site at Steynsrus needs to be rehabilitated after 13 years (2027). Rehabilitation costs to be incurred are stipulated in the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass.

Details on rehabilitation provision for quarries:

Kroonstad gravel quarries
The gravel quarries at Kroonstad need to be rehabilitated after 3 years (2017). Rehabilitation costs to be incurred are stipulated by the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass and the slope erected.

Steynsrus gravel quarries
The gravel quarries at Steynsrus needs to be rehabilitated after 7 years (2021). Rehabilitation costs to be incurred are stipulated by the above mentioned Act which specifies that the area needs to be covered by 100mm top soil and be planted with grass and the slope erected.

Long service award (LSA)
The provision relates to the Long Service Award obligation for the municipal employees. The actuarial valuation was performed in line with the requirements of IAS 19.

Amounts recognised in the statement of Financial Performance are as follows:		
Current service cost	-	(1 086 000)
Interest cost	-	(780 000)
Expected return on plan assets	-	-
Actuarial gains/(losses)	-	(743 000)
Change in asset ceiling	-	-
Cash movements	-	-
Benefit payments	-	982 000
Employer contributions	-	-
Net Expenditure recognised in the statement of Financial Performance	**-**	**(1 627 000)**

Amounts recognised in the statement of Financial Position are as follows:		
Defined benefit obligation	-	(12 734 000)
Plan assets	-	-
Unrecognised actuarial (gains)/losses	-	-
Net obligation recognised in the Statement of Financial Position	**-**	**(12 734 000)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

20. Provisions (continued)

Key assumptions used:

Assumptions used at the reporting date:

Discount rates used	7.45%	7.10%
Salary inflation	7.90%	7.50%
Net discount rate	-0.42%	-0.37%

The basis on which the discount rate has been determined is as follow:

The discount rate used in the valuation is our best estimate assumption of a CPI inflation rate, consistent with the gross discount rate, is determined with reference to the difference between the yields on government conventional and index-linked bonds as at valuation date, adjusted by a liquidity risk premium of 0.35%. A 2% margin is added to these estimates to arrive at the best estimate assumption for a salary inflation.

21. Revenue

Service charges	323 226 599	300 635 369
Rental income	4 112 344	4 190 682
Fees earned	781 668	848 038
Discount received	133 691	144
Other income	8 063 414	12 296 162
Interest received - investment	7 402 642	5 785 853
Dividends received	12 234	8 109
Property rates	36 337 405	42 025 820
Government grants & subsidies	248 349 145	228 899 884
Public contributions and donations	9 800 000	-
Fines	862 465	974 809
	639 081 607	**595 664 870**

The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	323 226 599	300 635 369
Rental income	4 112 344	4 190 682
Fees earned	781 668	848 038
Discount received	133 691	144
Other income	8 063 414	12 296 162
Interest received - investment	7 402 642	5 785 853
Dividends received	12 234	8 109
	343 732 592	**323 764 357**

The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	36 337 405	42 025 820
Transfer revenue		
Government grants & subsidies	248 349 145	228 899 884
Public contributions and donations	9 800 000	-
Fines	862 465	974 809
	295 349 015	**271 900 513**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

22. Government grants and subsidies

Equitable share	159 954 000	157 155 000
Councillors remuneration grant	-	6 089 000
Municipal System Improvement (MSIG)	879 911	800 000
LG SETA grant	420 050	1 213 197
Municipal Infrastructure grant (MIG)	44 524 000	46 897 000
Rehabilitation of sewerage network - DWA	11 951 556	8 130 387
Financial Management grant (FMG)	1 545 830	1 500 000
Intergrated National Electrification grant	28 044 298	5 902 756
Expanded Public Works Program grant (EPWP)	1 029 500	1 212 544
	248 349 145	**228 899 884**

Councillor remuneration grant

Balance unspent at beginning of year	-	-
Current-year receipts	-	6 089 000
Conditions met - transferred to revenue	-	(6 089 000)
Unspent grant	**-**	**-**

In terms of the constitution, this grant is used to subsidise the remuneration of councillors.

Equitable share

Balance unspent at beginning of year	-	-
Current-year receipts	164 486 000	157 155 000
Conditions met - transferred to revenue	(164 486 000)	(157 155 000)
Unspent grant	**-**	**-**

In terms of the Constitution, this grant is used to subsidise the provision of basic and administrative services to indigent community members and to subsidise income.

Municipal Infrastructure Grant

Balance unspent at beginning of year	-	-
Current-year receipts	44 524 000	46 897 000
Conditions met - transferred to revenue	(44 524 000)	(46 897 000)
Unspent grant	**-**	**-**

Conditions still to be met - remain liabilities (see note 19).

The grant is used to supplement the municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services.

LG SETA grant

Balance unspent at beginning of year	1 122 603	1 558 910
Current-year receipts	206 503	776 890
Conditions met - transferred to revenue	(420 050)	(1 213 197)
Unspent grant	**909 056**	**1 122 603**

Conditions still to be met - remain liabilities (see note 19).

Figures in Rand	2014	2013

22. Government grants and subsidies (continued)

The grant is used for training municipality staff to enhance their skills in their respective positions.

Integrated national electrification grant

Balance unspent at beginning of year	521 477	4 424 233
Current-year receipts	39 000 000	2 000 000
Conditions met - transferred to revenue	(28 044 297)	(5 902 756)
Unspent grant	**11 477 180**	**521 477**

Conditions still to be met - remain liabilities (see note 19).

The purpose of the grant is to facilitate the municipality electrical infrastructure needs.

Extended Public Works Program grant

Balance unspent at beginning of year	107 662	61 206
Current-year receipts	1 000 000	1 259 000
Conditions met - transferred to revenue	(1 029 500)	(1 212 544)
Unspent grant	**78 162**	**107 662**

Conditions still to be met - remain liabilities (see note 19).

This grant is used in respect of job creation projects and programmes.

Rehabilitation of sewerage network - DWA Grant

Balance unspent at beginning of year	-	130 243
Current-year receipts	11 951 561	8 000 094
Conditions met - transferred to revenue	(11 971 579)	(8 130 337)
Unspent grant	**(20 018)**	**-**

Conditions still to be met - remain liabilities (see note 19).

Provide explanations of conditions still to be met and other relevant information.

Finance Management grant

Current-year receipts	1 550 000	1 500 000
Conditions met - transferred to revenue	(1 545 830)	(1 500 000)
Unspent grant	**4 170**	**-**

Conditions still to be met - remain liabilities (see note 19).

This grant is to be used to train and appoint intern staff members in the finance department of the municipality.

Municipal Systems Improvement Grant (MSIG)

Current-year receipts	890 000	800 000
Conditions met - transferred to revenue	(879 911)	(800 000)
Funds withheld due to non spending (in previous years)	-	(583 000)
Adjustment against accumulated surplus	-	583 000
Unspent grant	**10 089**	**-**

Conditions still to be met - remain liabilities (see note 19).

Figures in Rand	2014	2013

22. Government grants and subsidies (continued)

The purpose of the grant is to support municipal restructuring initiatives of large municipalities. Funds are made available on the basis of approved restructuring plans that addresses challenges in a sustainable manner.

Department of local governtment (DPLG)

Balance unspent at beginning of year	1 147 622	1 147 622

Conditions still to be met - remain liabilities (see note 19).

This grant is to be used to assist with the development of urban renewal.

23. Property rates

Rates received

Residential	39 384 201	32 265 808
State	10 460 675	9 760 012
Less: Income forgone	(13 507 471)	-
	36 337 405	**42 025 820**

Valuations

Commercial	1 004 782 590	1 029 410 277
Multi-purpose	70 190 001	257 305 800
Municipal	304 013 844	296 583 859
Non-ratable	180 240 507	175 400 500
Residential	7 747 633 035	7 397 853 040
State	988 716 043	1 135 240 547
	10 295 576 020	**10 291 794 023**

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2012. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

An average rate of R0.004 (2013: R0.004) is applied to property valuations to determine assessment rates. The first R50 000 of residential property is exempt from taxation. Rebates of 20% are granted to state property owners.

Rates are levied on an monthly basis. Interest at prime plus 1% per annum (2013: prime +1%) is levied on rates outstanding two months after due date.

24. Service charges

Sale of electricity	211 392 481	193 930 550
Sale of water	75 237 383	72 734 835
Sewerage and sanitation charges	23 310 657	21 705 907
Refuse removal	13 286 078	12 264 077
	323 226 599	**300 635 369**

25. Rental income

Facilities and equipment		
Rental of facilities	4 112 344	4 190 682

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

26. Fees earned

Administrative and management fees	781 668	848 038

27. Investment revenue

Dividend revenue		
Unlisted shares	12 234	8 109
Interest revenue		
Bank	1 529 588	970 382
Interest received - SARS	869 016	-
Interest charged on receivables from exchange transactions	5 004 038	4 815 471
	7 402 642	**5 785 853**
	7 414 876	**5 793 962**

All amounts above included in Investment revenue arises from exchange transactions.

28. Other revenue

Advertisements	1 200	1 000
Advertising signs	74 484	74 684
Building plans and inspection fees	112 414	109 795
Burial income	881 306	859 512
Connection fees	1 510 717	967 706
Donations received	-	5 885 028
Erven sales	96 175	25 041
Escort fees	3 947	6 307
Fire brigade fees	145 656	23 510
Hostel fees	40 727	40 199
Insurance claims	-	2 317 925
Other income	1 137 174	1 088 371
Railway siding industrial	669 210	512 608
Rescue and assistance fees	684 919	22 415
Special services	19 134	-
Telephone costs recovered	247 545	407 540
Unclaimed deposits	2 400 619	-
Water valuation adjustments	38 187	(45 479)
	8 063 414	**12 296 162**

29. Discount received

Discount received consists of:		
SALGA	133 691	-
Other creditors	-	144
	133 691	**144**

30. Fines

Fines consists of:		
Traffic fines	862 465	974 809

31. Donations and public contributions

Infrastructure asset donated by Fezile Dabi District Municipality	9 800 000	-

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

32. Employee related costs

Basic	95 860 187	92 182 838
Bonus	7 406 457	8 003 657
Medical aid - company contributions	11 712 264	11 106 900
UIF	1 011 395	998 693
Other payroll levies	1 753 831	1 734 105
Leave pay provision charge	2 696 215	2 349 167
Defined contribution plans	16 786 794	15 786 483
Overtime payments	13 316 917	11 808 140
Car allowance	7 610 608	7 332 013
Housing benefits and allowances	797 763	764 423
Other allowances	701 937	607 539
Telephone allowance	375 285	379 383
Standby allowance	1 259 969	1 004 745
	161 289 622	**154 058 086**

Remuneration of Municipal Manager

Annual Remuneration	781 500	625 000
Contributions to UIF, Medical and Pension Funds	16 015	1 463
Allowances	555 235	434 203
Travel and subsistence	40 792	37 249
Skills development levy	12 479	8 794
	1 406 021	**1 106 709**

Remuneration of Chief Finance Officer

Annual Remuneration	390 653	443 567
Contributions to UIF, Medical and Pension Funds	1 041	46 086
Allowances	207 673	384 290
Travel and subsistence	8 979	7 318
Skills development levy	-	5 414
	608 346	**886 675**

The remuneration of the chief finace officer is for 7 months of the financial year. The previous CFO (Mr. Mokoena) resigned on the 28 March 2013 and the new CFO was appointed on the 02 December 2013.

Remuneration of executive directors

Executive Director: Technical Services

Annual Remuneration	656 460	367 500
Allowance	469 905	1 041
Contributions to UIF, Medical and Pension Funds	1 785	250 959
Travel and subsistence	14 524	16 814
Skills development levy	10 375	5 766
	1 153 049	**642 080**

The remuneration of the technical services director for the previous year was for 7 months of the financial year, as Mr. Mokgatle was appointed on the 1 December 2012.

Acting

Acting allowance		96 304

Mr MH Geringer received an acting allowance for the period of 1 July 2012 to 30 November 2012.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

32. Employee related costs (continued)

Executive Director: Corporate Services

Annual Remuneration	656 460	367 500
Allowance	341 981	196 259
Contributions to UIF, Medical and Pension Funds	134 541	55 741
Travel and subsistence	17 100	9 804
Skills development levy	9 185	5 215
	1 159 267	**634 519**

The remuneration of the corporate services director in the previous year is only for 10 months of the financial year, as Mr Mthwalo was appointed on the 1 December 2012.

Acting

Acting allowance		32 720

Mr Odendaal received an acting allowance for the period of 1 Oct 2012 to 30 November 2012.

Executive Director: Community Services

Annual Remuneration	656 460	359 940
Allowance	458 826	221 413
Contributions to UIF, Medical and Pension Funds	26 815	13 087
Travel and subsistence	16 767	10 830
Skills development levy	10 901	5 590
	1 169 769	**610 860**

The remuneration of the community services director for the previous year is only for 7 months of the financial year, as Ms Tshabalala was appointed on the 1 December 2012.

Acting

Acting allowance - Mr Gavhi	-	43 108
Acting allowance - Mr van der Westhuizen	-	56 204
	-	**99 312**

Mr Gavhi received an acting allowance for a period of 1 July 2012 to 30 September 2012.
Mr van der Westhuizen received an acting allowance for a period of 1 October 2012 to 30 November 2012.

33. Remuneration of councillors

Executive Major	395 042	422 118
Mayoral Committee Members	3 349 430	3 350 885
Speaker	332 225	334 699
Councillors	10 038 633	8 604 240
Councillors' pension contribution	2 169 523	2 125 210
	16 284 853	**14 837 152**

The salaries, allowances and benefits of councillors disclosed are within the upper limits of the SALGA bargaining council determinations.

Figures in Rand	2014	2013

33. Remuneration of councillors (continued)

In-kind benefits

The Executive Mayor, Deputy Executive Mayor, Speaker and Mayoral Committee Members are employed on a full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor has the use of a Council owned vehicle for official duties.

The Mayor has one full-time bodyguard and a driver.

	2014	2013
Executive Mayor - Cllr J Mohapi (Resigned 21 May 2014)		
Basic Salary	432 040	430 235
Car Allowance	156 558	167 572
Social Contributions	89 327	84 800
Cellphone Allowance	18 568	19 872
	696 493	**702 479**

	2014	2013
Excecutive Mayor - Cllr J Mareka (Appointed 03 June 2014)		
Basic Salary	366 222	329 968
Car Allowance	135 628	125 679
Social Contributions	83 420	67 374
Cellphone Allowance	20 868	19 872
	606 138	**542 893**

	2014	2013
Speaker - Cllr ACWD Nakedi		
Basic Salary	381 522	376 804
Car Allowance	140 760	134 057
Social Contributions	106 568	70 867
Cellphone Allowance	20 868	19 872
	649 718	**601 600**

Mayoral Committee Members

	2014	2013
MMC - COMMUNITY SERVICES: Cllr S Mokoena		
Basic Salary	349 960	318 101
Car Allowance	129 395	125 679
Social Contributions	76 940	67 374
Cellphone Allowance	28 068	19 872
	584 363	**531 026**

	2014	2013
MMC - TECHNICAL SERVICES: Cllr MP Thipane		
Basic Salary	349 960	331 869
Car Allowance	129 395	125 679
Social Contributions	80 771	67 374
Cellphone Allowance	28 068	19 872
	588 194	**544 794**

	2014	2013
MMC - IDP AND PLANNING: Cllr DA Tau		
Basic Salary	-	321 674
Car Allowance	-	125 679
Social Contributions	-	67 374
Cellphone Allowance	-	19 872
	-	**534 599**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

33. Remuneration of councillors (continued)

MMC - PUBLIC SAFETY: Cllr DPC Colbert		
Basic Salary	349 960	329 982
Car Allowance	129 395	125 679
Social Contributions	73 346	67 374
Cellphone Allowance	28 068	19 872
	580 769	**542 907**

MMC - PERSONNEL AND ADMINISTRATION: Cllr TM Mkhwanazi		
Basic Salary	-	322 905
Car Allowance	-	125 679
Social Contributions	-	67 374
Cellphone Allowance	-	19 872
	-	**535 830**

MMC - RURAL DEVELOPMENT AND LAND REFORM: Cllr MLM Machobane		
Basic Salary	349 960	317 050
Car Allowance	129 395	125 679
Social Contributions	74 759	67 374
Cellphone Allowance	28 068	19 872
	582 182	**529 975**

MMC - HUMAN SETTLEMENT: Cllr Mokotla		
Basic Salary	-	319 965
Car Allowance	-	125 679
Social Contributions	-	67 374
Cellphone Allowance	-	19 872
	-	**532 890**

MMC - SPORT, ARTS, CULTURE & RECREATION: Cllr NP Mokodutlo		
Basic Salary	372 803	354 511
Car Allowance	121 273	120 791
Social Contributions	30 242	20 643
Cellphone Allowance	28 068	19 872
	552 386	**515 817**

MMC - COUNCIL WHIP: Cllr MA Koloi		
Basic Salary	349 960	322 905
Car Allowance	129 395	125 679
Social Contributions	88 630	67 374
Cellphone Allowance	26 068	19 872
	594 053	**535 830**

MMC - LOCAL ECONOMIC DEVELOPMENT & INVESTMENT: Cllr TL Makau		
Basic Salary	349 960	314 875
Car Allowance	129 395	125 679
Social Contributions	70 601	67 393
Cellphone Allowance	28 068	19 872
	578 024	**527 819**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

33. Remuneration of councillors (continued)

MMC - FINANCE, AUDIT AND RISK MANAGEMENT: Cllr ER Moletsane		
Basic Salary	349 960	329 982
Car Allowance	129 395	125 679
Social Contributions	89 229	67 374
Cellphone Allowance	26 068	19 872
	594 652	**542 907**

PART TIME COUNCILLORS		
Cllr's A Masuret, MJ Letsabo, AH Viljoen, TM Mkhwanazi, AMS Dire, JM Hattingh, MA Monoto, MJ Mofokeng, MD Mbono, M Pittaway, FM Taje, DM Shahim, SB Tladi, GV Wille, NW Mkhotheni, EM Notsi, SV Malokotsa, MM Green, DM Kubheka, LD Kgang, TM Ntsala, MJ Sethabela, B Rooskrans, NM Selikoe, ME Letsitsa, ZS Magadlela, LP Mahasa, EV Rajuili, DA Moeketsi, LM Seleke, MI Thajane, WL Makoele, CM Dalton, MJ Lithupa, DN Nzunga		
Basic Salary	5 097 172	4 825 273
Car allowance	3 551 321	1 835 915
Social Contribution	1 365 663	755 109
Cellphone Allowance	1 370 325	456 834
	11 384 481	**7 873 131**

34. Debt impairment

Debt impairment	46 384 174	(48 109 163)

35. Depreciation and amortisation

Property, plant and equipment	4 762 175	249 682 449
Intangible assets	246 461 497	338 141
	251 223 672	**250 020 590**

36. Finance costs

Interest on landfill sites and quarries	-	(389 393)
Interest on late payment of creditors	1 128 630	3 726 351
Interest finance leases	20 141	171 522
Interest on bank overdraft	1	15
Interest on annuity loans	3 891 692	2 640 697
Ineterest on employee benefits	-	4 268 000
	5 040 464	**10 417 192**

37. Auditors' remuneration

Fees	5 566 080	4 179 948

38. Contracted services

Specialist Services	9 984 328	8 625 654
Other Contractors	1 635 677	1 412 843
	11 620 005	**10 038 497**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

39. Repairs and maintenance

Repairs and maintenace consists of:

Buildings	1 040 108	1 159 132
Furniture and Office equipment	1 114 264	2 057 501
Plant and Machinery	1 566 051	1 320 415
Network maitenance	29 238 514	20 509 513
Street and storm water drainage	3 514 263	2 879 886
Tools	26 882	40 833
Vehicles	3 386 992	4 809 411
	39 887 074	**32 776 691**

40. Grants and subsidies paid

Grant Expenditure - LG SETA	383 662	1 172 871
FMG Grant Expenditure	1 215 575	1 256 374
MSIG Grant Expenditure	190 281	571 231
EEDSM Grant	2 685 599	-
	4 475 117	**3 000 476**

41. Bulk purchases

Electricity	171 181 393	164 088 758
Water	1 870 344	897 031
	173 051 737	**164 985 789**

42. Loss on disposal of assets

Property, plant and equipment	(34 181)	(880 348)

Furniture	-	(48 133)
IT Equipment	(12 669)	(45 730)
Office Equipment	-	(27 099)
Plant and Machinery	-	(86 622)
Vehicles	(21 512)	(672 764)
	(34 181)	**(880 348)**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

43. General expenses

Advertising	268 406	180 819
Assets expensed	657	-
Auditors remuneration	5 566 080	4 179 948
Bank charges	1 840 078	1 845 986
Chemicals	2 813 450	3 751 141
Cleaning	12 529	4 482
Commission paid	3 925 800	3 638 242
Conferences and seminars	896 276	1 078 876
Consulting and professional fees	4 063 714	5 463 053
Entertainment	163 231	172 383
Fuel and oil	5 893 888	5 119 122
Hire	1 134 252	-
Indigent contributions	8 279 045	10 250 644
Insurance	6 766 244	6 533 709
Lease rentals on operating lease	7 122 870	4 058 564
Levies	1 382 325	1 414 079
Licences - other	988 079	1 561 549
Licences - vehicles	363 484	345 674
Other expenses	5 534 188	9 620 396
Postage and courier	1 223 759	1 287 656
Printing and stationery	1 855 912	1 694 187
Project maintenance costs	-	261 474
Protective clothing	226 092	220 757
Special programs	301 098	316 486
Subscriptions and membership fees	1 786 756	1 824 406
Telephone and fax	1 219 241	1 274 250
Training	19 063	42 172
Valuation roll	-	362 360
Workmen's compensation	950 000	1 000 000
	64 596 517	**67 502 415**

44. Fair value adjustments

Investment in shares	6 110	17 733

45. Cash generated from operations

Surplus / (deficit)	(134 799 699)	(68 248 476)
Adjustments for:		
Depreciation and amortisation	251 223 672	250 020 590
Loss on disposal of assets and liabilities	34 181	880 348
Retirement benefits - Actuarial Gains	-	3 523 000
Fair value adjustments	(6 110)	(17 733)
Debt impairment	46 384 174	(48 109 163)
Movements in provisions	(9 000)	1 489 082
Changes in working capital:		
Inventories	(339 344)	(90 187)
(increase) / decrease in receivables from exchange transactions	(6 223 632)	14 151 002
Other receivables from non-exchange transactions	1 425 585	1 568 482
Payables from exchange transactions	(36 046 609)	(10 616 218)
VAT	11 536 577	(12 748 130)
Unspent conditional grants and receipts	10 706 897	(4 422 899)
Consumer deposits	393 534	506 389
Retirement benefit obligation	-	6 164 000
	144 280 226	**134 050 087**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

46. Contingencies

Contingent liabilities - pending claims

The municipality is being sued for some of the following pending claims against the council. All the claims are being contested based on legal advice.

The certainty and the timing of the outflow of these liabilities are uncertain. The amounts disclosed below are possible outflow amounts.

Contingent liabilities		
Claims by individuals due to damage of property in various incidents	-	91 719
Claims from suppliers - contractual disputes	19 423 990	20 460 272
Claims by individuals due to injuries in various incidents	-	326 729
Leave accrual	2 847 856	1 640 089
	22 271 846	**22 518 809**

Contingent assets

The contingent asset is as a result of employees who exceeded their leave days as at 30 June 2014. This is as a result of the variance in the leave cycles of the respective employees.

Contingent assets		
Leave accrual	131 029	-

47. Related parties

Relationships	
Accounting Officer	Refer to accounting officer's report note
Post employment benefit plan for employees of entity and/or other related parties	Refer to note 15
Members of key management	Refer to note 30 and 48

The municipality did not enter into any related party transactions during the year under review, which were not at arm's length.

Key management information

Class	Description	Number
Section 57 managers		4
Executive Mayor		1
Councillors		49
Municipal Manager		1

48. Prior period errors

Property, Plant and Equipment were depreciated at the tax rates. The useful lives and residual values were not appropriately considered. (Give the nature of the error.)

The correction of the error(s) results in adjustments as follows:

49. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are as follows:

Notes to the Annual Financial Statements

Figures in Rand		2014	2013

50. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 17, 18, 19, cash and cash equivalents disclosed in note 3, and accumulated surplus as disclosed in the statement of financial position.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

The municipality's total net borrowings consist of the following:

Total Borrowings			
Finance lease obligation	16	101 100	379 990
Long-term loans	17	25 856 332	28 547 451
Trade and other payables from exchange transactions	18	111 488 326	147 534 929
	-	137 445 758	176 462 370
Less: Cash and cash equivalents	3	(22 225 056)	(9 731 284)
Net debt	**-**	**115 220 702**	**166 731 086**

Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and equity price risk), credit risk and liquidity risk.

50. Risk management (continued)

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The municipality's risk to liquidity is a result of funds not being available to cover future commitments. The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2014	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Finance lease obligations	83 975	17 125	-	101 100
Other financial liabilities	2 258 568	23 597 764	-	25 856 332
Trade and other payables from exchange transactions	111 488 326	-	-	111 488 326
Consumer deposit	9 214 943	-	-	9 214 943
	123 045 812	**23 614 889**	**-**	**146 660 701**

At 30 June 2013	Less than 1 year	Between 1 and 5 years	Over 5 years	Total
Finance lease obligations	313 960	66 030	-	379 990
Other financial liabilities	1 508 475	27 038 976	-	28 547 451
Trade and other payables from exchange transactions	147 534 929	-	-	147 534 929
Consumer deposit	8 821 409	-	-	8 821 409
	158 178 773	**27 105 006**	**-**	**185 283 779**

The municipality is currently negotiating revised repayment terms with regards to financial liabilities.

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. During 2013 and 2012, the municipality's borrowings at variable rate were denominated in the Rand.

At 30 June 2014, if interest rates on Rand-denominated borrowings had been 1% higher/lower with all other variables held constant, deficit for the year would have been R - lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings; other components of equity would have been R - lower/higher mainly as a result of a decrease/increase in the fair value of fixed rate financial assets classified as available-for-sale.

At year end, financial instruments exposed to interest rate risk were as follows:

- ABSA primary bank account;
- FNB bank account;
- ABSA fixed deposits;
- ABSA notice deposit;
- FNB call deposits;
- Finance lease obligations; and
- Various annuity loans;

The following financial instruments at year-end carried a variable interest rate;
- ABSA primary bank account;
- Finance lease obligations;

The following financial instruments at year-end carried a fixed interest rate;
- FNB bank account;
- ABSA fixed deposits;
- ABSA notice deposit;
- FNB call deposits;
- Various annuity loans;

50. Risk management (continued)

The municipality's consumer receivables exposure to credit risk is influenced mainly by the individual risk characteristics of each consumer. Consumer receivables comprise of services supplied by the municipality such as electricity, water, sanitation, refuse and rates levied. Consumer receivables constitute approximately 86% of the municipality's total exposure to maximum credit risk. The municipality's exposure and credit ratings of its customers are continuously monitored.

The municipality establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. No trade or other receivables have been pledged as security. Certain trade and other receivables that were past due have been defaulted on by counterparties, thus legal action has been instituted against these parties in an attempt to recover this debt, where debt is irrecoverable it has been written-off accordingly. No conditions or terms of the trade and other receivables have been re-negotiated with counterparties.

Cash and Cash Equivalents
Moqhaka local municipality limits its credit risk by only banking with registered financial institutions in terms of the Banks Act, 94 of 1990 operating in South Africa.

Investments
It is the municipality's practice to limit its credit risk by only investing in registered banks in terms of the Banks Act, 94 of 1990. Given the high credit ratings of these financial institutions the municipality does not expect any counterparty to fail to meet its obligation.

Financial assets exposed to credit risk at year end were as follows:

Credit risk

Credit risk consists mainly of investments, cash equivalents and consumer debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Financial instrument	2014	2013
ABSA Bank	6 304 450	1 376 377
ABSA Bank Short-term deposit	15 904 686	8 020 854
Receivables from exchange transactions	58 189 236	64 412 868
Other receivables from exchange transactions	15 254 842	13 829 257

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position as financial assets at fair value through surplus or deficit. The municipality is not exposed to commodity price risk.

51. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality.

The municipality is currently experiencing financial difficulties. Indicators of the financial problems are:

- The significant decrease in accounts payable of R 36 million (2013: R11 million);
- The municipality incurred a surplus during the year of R 110 million (2013: deficit R 68 million);
- The creditors are not paid within 30 days as required by the MFMA;
- Debt collection period has not improved during the current year;
- The gross outstanding debtors decreased from R 231 million in 2013 to R million as at 30 June 2014;
- The provision for doubtful debts have been estimated at R 220 million (2013: R 167 million). This equates to approximately 82% of gross outstanding debtors (2013: 79%) before accrued water and electricity. Included in provision for doubtful debts is an amount of R40 million for indigent debtors (2013: R57 million).

Notes to the Annual Financial Statements

51. Going concern (continued)

We draw attention to the fact that at 30 June 2014 the municipality's current liabilities amounted to R 137 million (2013: R 161 million), whilst the current assets amounted to R 109 million (2013: R 112 million).

The municipality is exploring alternative options to improve it's financial position.

52. Events after the reporting date

There were no subsequent events after the reporting date that had an impact on the financial results as disclosed for the year ended 30 June 2014.

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

53. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government - SALGA

Opening balance	1 616 139	1 695 889
Current year subscription / fee	1 770 687	1 616 139
Discount received	(133 691)	-
Amount paid - current year	(1 648 849)	-
Amount paid - previous years	(1 616 139)	(1 695 889)
	(11 853)	**1 616 139**

Material losses through criminal conduct

There were no material losses incurred due to criminal conduct identified during the year by the municipality.

Audit fees

Opening balance	3 611 203	2 130 337
Current year fee	6 345 331	4 754 361
Interest charged	256 925	195 360
Amount paid - current year	(6 562 136)	(1 338 518)
Amount paid - previous years	(3 611 203)	(2 130 337)
	40 120	**3 611 203**

PAYE and UIF

Opening balance	1 304 810	1 467 421
Current payroll deductions	18 881 626	17 354 965
Amount paid - current year	(18 658 222)	(17 517 576)
	1 528 214	**1 304 810**

Pension and Medical Aid Deductions

Opening balance	3 355 439	-
Current payroll deductions and council contribution	25 370 283	35 921 581
Amount paid - current year	(26 534 094)	(32 566 142)
	2 191 628	**3 355 439**

Skills Development Levy

Opening balance	104 328	104 711
Current payroll deductions and council contribution	1 370 078	1 326 810
Amount paid - current year	(1 363 667)	(1 327 193)
	110 739	**104 328**

Reticulation losses

Estimated electricity losses suffered by the municipality for the year under review are as follows:

Estimated line losses	10 152 182	9 536 299
Losses due to tampering or theft	30 013 914	22 897 224
	40 166 096	**32 433 523**

Estimated water losses suffered by the municipality for the year under review is are follows:

Estimated water losses	15 099 230	8 795 621

53. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following councillors had arrear accounts outstanding for more than 90 days at:

	Outstanding more than 90 days R	Outstanding more than 90 days R
Dire MP	41	803
Kgang LD	-	669
Letsabo MJ	-	733
Twapa VPM	57 559	93 215
Makau TL	51	518
Makoele WL	796	5 425
Matshedisho DA	208	793
Ntsala TM	-	1 137
Nzunga DN	-	23 680
Magadlela ZS	1 421	-
Mokotla ME	236	-
Rooskrans B	836	-
Thipane MP	211	-
	61 359	**126 973**

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the Municipal Manager and noted by Council. The expenses are listed in note 52 to 54.

54. Irregular expenditure

	2014	2013
Opening balance	144 794 943	59 554 331
Add: Irregular Expenditure - current year	-	85 240 612
Less: Amounts approved / written-off by council	-	-
	144 794 943	**144 794 943**

Analysis of expenditure awaiting condonation per age classification

	2014	2013
Current year	-	85 240 612
Prior years	144 794 943	59 554 331
	144 794 943	**144 794 943**

55. Fruitless and wasteful expenditure

	2014	2013
Opening balance	27 878 342	21 790 081
Add: Fruitless and wasteful expenditure - current year	2 677 348	6 088 261
Less: Amounts approved / written off by council	(16 934 871)	-
	13 620 819	**27 878 342**

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

55. Fruitless and wasteful expenditure (continued)

Analysis of expenditure awaiting condonation per age classification

Current year	2 677 348	6 088 261
Prior years	27 878 342	21 790 081
Written off by council	(16 934 871)	-
	13 620 819	**27 878 342**

Details of fruitless and wasteful expenditure – current year

	Disciplinary steps taken/criminal proceedings		
Interest on arrear payments to creditors	-	2 672 770	6 088 261
Interest on arrear payments towards pension fund	-	4 578	173
	-	**2 677 348**	**6 088 434**

Fruitless and wasteful expenditure occurred from prior years	-	28 043 473
Interest on loan amounts as a result of exceeding of payment terms - DBSA	-	2 857 599
Interest on outstanding payments towards SALA pension fund	4 578	334 228
Payment made for inventory which could not be verified	-	1 178 285
Interest on outstanding payments towards Auditor General, Eskom and Telkom	2 672 770	6 476 468
Overpayment of Professional Fees	-	1 452 287
Legal fees paid for contractual breach	-	324 533
Payments for services not provided	-	399 000
Fruitless and wasteful for current year	2 677 348	6 088 261
Fruitless and wasteful approved or written off by council	(16 934 871)	(19 275 792)
	(11 580 175)	**27 878 342**

The tourism extravaganza is still under investigation.

Interest on loan amounts as a result of exceeding payment terms

Opening balance	2 921 882	2 857 599
Fruitless and wasteful current year	-	64 283
Approved or written off by council	(2 828 225)	-
	93 657	**2 921 882**

Interest on outstanding payments to pension fund

Opening balance	334 401	334 228
Fruitless and wasteful current year	4 578	173
Fruitless and wasteful approved or written off by council	(334 402)	-
	4 577	**334 401**

Interest on arrears payments to creditors

Opening balance	12 500 273	6 476 468
Fruitless and wasteful current year	2 677 348	6 023 805
Approved or written off by council	(14 558 239)	-
	619 382	**12 500 273**

Overpayment of professional fees

Opening balance	1 452 287	1 452 287

Notes to the Annual Financial Statements

Figures in Rand	2014	2013

55. Fruitless and wasteful expenditure (continued)

Legal fees paid for contractual breach

Opening balance	324 533	324 533

Payments for services not provided

Opening balance	399 000	399 000

Payments made for inventory which could not be verified

Opening balance	1 178 285	1 178 285
Fruitless and wasteful approved or written off by council	(1 178 285)	-
	-	**1 178 285**

56. Unauthorised expenditure

Unauthorised expenditure - budget overspending	208 230 354	52 253 161
Current year	183 091 828	155 977 193
Approved or written off by council	(106 352 017)	-
	284 970 165	**208 230 354**

The above overspending is for individual votes.

57. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Deviations from supply chain management regulations did occur. These deviations were submitted and noted by Council. A detailed deviation register is available at the municipality for inspection.

58. Capital Commitments

Approved and contracted for		
Infrastructure	19 046 538	26 772 834
Approved and not contracted for:		
Infrastructure	27 075 905	-
	46 122 443	**26 772 834**

Infrastructure commitments approved and contracted for will be funded by grants from government.

59. Actuarial Gains/(Losses) on Employees benefits

Actuarial Gains/(Losses)	-	3 523 000

The above balance is made up as follows;

Long Service Awards - Actuarial gains/(losses)	-	(847 000)
Post retirement medical benefit - Actuarial gains/(losses)	-	(2 676 000)
	-	**(3 523 000)**

60. Non-Compliance with the MFMA

During the current financial year the following non-compliance issues were identified:

Supply chain management regulations 12(1)(c), 17(1)(a) - (c)
Goods and services of a transaction value between R10,000 and R200,000 were procured without inviting at least three written price quotations from accredited prospective providers and the deviation was not approved by the CFO.

Deviations from competitive bidding were approved on the basis of it being an emergency, even though immediate action was not necessary and sufficient time was available to follow a bidding process.

Deviations from competitive bidding were approved on the basis of it being an emergency, even though proper planning would have prevented such emergency.

Municipal Finance Management Act section 116(2)(b), (c)
The performance of all contractors were not monitored on a monthly basis.

Municipal Finance Management Act section 65 (e)
Creditors were not paid in 30 days as required by the Act.

61. Budget differences

Material differences between budget and actual amounts

Refer to page 11 in the annual financial statements for an analysis of budget versus the actual amounts.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to pages 11 in the annual financial statements.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to pages 11 in the annual financial statements